INFORMED BUDGETEER: Concurrent Resolution on the Budget, FY 1998

Budget Aggregates for FY 1998 Budget Resolution
($ in Billions)

	1997	1998	1999	2000	2001	2002	Total
Discretionary:							
Defense	267.5	266.8	266.5	269.0	270.7	273.1	1346.1
Non defense	281.0	286.4	292.8	295.3	293.7	287.7	1456.0
Subtotal	548.5	553.3	559.3	564.3	564.4	560.8	2802.0
Mandatory:							
Social Security	363.0	380.7	399.5	419.5	440.7	463.7	2104.1
Medicare	208.8	220.8	233.1	249.3	265.0	279.9	1248.1
Medicaid	98.6	105.3	112.1	120.5	129.2	137.6	604.7
Other Mandatory	155.5	183.5	197.9	209.9	217.3	210.0	1018.7
Net Interest	247.6	248.6	252.0	247.7	241.7	236.9	1226.9
Total Outlays	1622.1	1692.1	1754.0	1811.2	1858.4	1888.9	9004.5
Revenues	1554.9	1601.8	1664.2	1728.1	1805.1	1890.4	8689.6
Deficit/surplus	-67.2	-90.5	-89.7	-83.0	-53.3	1.4	NA

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis. Prepared by SBC Majority Staff.

Deficit Reduction in FY 1998 Budget Resolution
($ in Billions)

	1997	1998	1999	2000	2001	2002	Total
Baseline deficits[A]	67.2	89.0	109.1	121.3	94.5	104.9	
Discretionary:							
Defense	--	-3.0	-9.9	-17.9	-18.3	-27.7	-76.8
Non defense	--	-1.0	-2.5	-8.0	-17.4	-32.3	-61.2
Mandatory:							
Pres. initiatives	--	5.9	6.1	6.7	6.5	6.0	31.2
Medicare	--	-6.5	-16.8	-22.7	-29.0	-40.0	-115.0
Medicaid	--	--	-1.5	-2.4	-3.6	-6.2	-13.6
Other Mandatory	--	-1.3	-5.6	-14.5	1.0	-19.2	-39.6
Revenues:							
Net tax relief	--	7.4	11.3	22.4	23.4	20.5	85.0
Policy changes	--	1.4	-19.0	-36.4	-37.4	-98.9	-190.1
Debt service	--	0.0	-0.5	-2.0	-3.8	-7.4	-13.6
Deficit reduction	--	1.5	-19.4	-38.3	-41.2	-106.3	-203.7
Deficit/surplus	67.2	90.5	89.7	83.0	53.3	-1.4	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis. Revenue reduction shown as positive because it increases the deficit. Prepared by SBC Majority Staff.
[A]Baseline includes fiscal dividend, CBO revenue update, and assumes discretionary spending increases at the rate of inflation.

TOTAL DEFICIT REDUCTION
($ in Billions)

	5- year savings	10-year savings
Defense	-77	-247
Nondefense	-61	-273
Subtotal Discretionary	-138	-520
Medicare	-115	-434
Medicaid	-14	-66
Spectrum	-26	-31
Other Mandatory	-12	-27
Subtotal Mandatory	-166	-558
Total Policy Reductions	-304	-1078
President's initiatives	31	70
Tax relief	85	250
Debt service	-14	-142
Total Deficit Reduction	-204	-900

- **Deficit Reduction**: Total spending reductions of approximately $304 billion over the next five years (from current services baseline) and $1,078 billion in savings over 10 years (discretionary, entitlement, and interest savings).

- **Economic Assumptions**: Uses the Congressional Budget Office winter baseline adjusted for recent CBO revenue estimates. (See Economics below.)

- **Tax Cuts:** Net tax cuts of $85 billion over 5 years, $250 billion over ten years. Gross tax cuts $135 billion over 5 years.

- It was assumed the following tax reductions could be accommodated: $500 per child family tax credit; capital gains tax cut; estate/death tax reform; and education tax cuts.

- Expanded IRAs, Brownfields , D.C. tax provisions, welfare-to-work tax credits, and other tax cut items could also be accommodated within this gross tax cut figure. Assumes $50 billion in tax offsets over 5 years including $30 billion in revenues from extending of Airline Ticket Tax.

- **Nondefense Discretionary Spending:** Spending reductions of $61.2 billion below a current services baseline. Compared to the President's FY 1998 budget request (untriggered), the resolution provides $38.6 billion less in spending authority and $14.7 billion less in outlays.

- Nondefense discretionary spending over the next 5 years would be $34 billion above a "freeze" baseline, after adjusting for renewal of Section 8 housing contracts.

- Discretionary spending priorities were set to protect Republican and White House programs including education, environment, law enforcement programs, and transportation programs.

- The resolution assumes the Highway Trust Fund will spend all gasoline tax receipts dedicated to it over 5 years.(See below.)

- **Defense:** Assumes funding in 1998 and 1999 as set in the 1997 Budget Resolution, with funding for 2000-2002 set at the President's request level. Outlays assumed in the resolution are those expected to result from such spending levels, but would be $77 billion less than baseline outlays over the next five years.

- **Entitlements: Medicare** net savings of $115 billion over 5 years, $165 billion over 6 years, and about $434 billion over 10 years.

  Maintain Part B premium at 25% of program costs. Increased beneficiaries' premiums account for nearly $15 billion of the total 5 year savings. Per-beneficiary spending would be $1,200 higher in 2002 compared to 1997.

  A portion of home health spending is transferred from Medicare Part A to Part B and phased into the Part B premium over a 7 year period resulting in about a $9.10 per month increase in the premium in 2002 (as estimated by CBO). Low income beneficiaries are protected from part B premium increases.

  Plan envisions four new benefits: (1) annual mammography, (2) diabetes self-management, (3) immunizations, and (4) colorectal cancer screening.

Medicare Growth Rate Assumptions FY 1998 Budget Resolution
(Annual Average Growth Rates in %)

	1997-2002	1997-2007
Baseline:		
Net Spending	8.8	8.6
Per Capita	7.5	7.1
FY 1998 Resolution		
Net Spending	5.6	6.6
Per capita	4.4	5.2

- **Medicaid** gross savings total nearly $14 billion over 5 years. No per capita cap is assumed. Savings would be achieved from reduced disproportionate share payments and increased state flexibility. Medicaid spending per enrollee would increase by $702 over the next 5 years.

- **Other Mandatory** program savings total some $40 billion over 5 years.

  Student loan program savings of $1.7 billion over 5 years.
  Federal Retirement (no COLA delay) savings of nearly $5 billion over 5 years.
  Housing program reforms of $1.6 million over 5 years.
  Spectrum auction savings of $26.3 billion.
  $2.7 billion in savings from veteran's programs over 5 years.

- Agreement rejects President's proposal to create new entitlement programs. But includes "add-backs" to increase existing mandatory spending in the following areas:

- **Child Health:** $16 billion over 5 years:

  Effort will increase coverage for up to 5 million children who currently lack health care by 2002.

  Funding could be used for these or other options: Medicaid outreach activities to identify and enroll eligible children and provide 12-month continuous eligibility; to restore Medicaid for current disabled children losing SSI because of new definition of childhood eligibility. A program of capped mandatory grants to States to finance health insurance coverage for uninsured children.

- Restores SSI/Medicaid disability benefits for all disabled legal immigrants who are or become disabled and who entered the US prior to August 23, 1996 -- totaling $9.7 billion over 5 years. Those disabled legal immigrants who entered the US after August 22, 1996 and are on the rolls before June 1, 1997 shall not be removed.

- Nutrition assistance (food stamps) funds additional work slots for 18-50 year olds with no dependents subject to the three month time limit. Allows states to exempt up to 15% of those subject to the cut off from time limits.

- Through 2001, $3 billion in additional funds to the Temporary Assistance to needy families block grant distributed to areas with high poverty or high unemployment.

- **Budget Enforcement:** The Resolution extends discretionary caps to 2002 and maintains pay-as-you-go requirements

<u>IN THE HIGHWAY TRUST FUND'S BEST INTEREST .....</u>

- The FY 1998 Budget Resolution assumes increased highway spending between 1998 and 2002 resulting from highway spending equal to the new tax receipts into the Highway Trust Fund - with a one year delay. For example, 1998 highway spending would be $21.5 billion, the amount of highway trust fund tax receipts for 1997.

- This is the first time that a budget resolution has assumed actual highway spending tied to the tax receipts of the trust fund. All tax receipts coming into the trust fund would be spent. Budgeteers should note that "the interest" on the cash balance the trust fund earns each year is not spent, and for good reason.

- Trust funds are federal government bookkeeping entries and are different from private sector trust funds. Interest earned by private sector funds represent real new resources to the fund. This is <u>not</u> the case with the Highway Trust Fund.

- The Highway Trust Fund was set up as an accounting device to align specific receipts and outlays. Interest payments to these federal trust funds are simply a paper transaction representing compounding interest the federal government would owe itself on funds borrowed from the trust fund. <u>Such interest payments do not represent additional funds which can or should be spent.</u>

ECONOMICS

<u>CBO REVENUE ADJUSTMENT</u>

- In early May, CBO Director O'Neill informed the Budget Committees by letter that the FY 1997 budget deficit was likely to come in roughly $45 billion below CBO's March projection. This stemmed from stronger than expected tax receipts in the first 7 months of FY 1997.

- Personal withholding tax receipts alone were $10 billion above CBO's forecast in the first 6 months of FY 1997. This was followed by an additional $25 billion tax windfall in April tax payments. With the economy expected to remain strong into year-end, CBO believes that withholding tax receipts will come in another $10 billion above expectations in the last 5 months of the fiscal year.

- CBO also indicated that it believes this revenue increase will likely be persistent. Thus, CBO suggested that its yearly deficit projections for FY 1998-FY2007 should be reduced by an amount similar to the $45 billion reestimate for 1997. Over the 5 years , this is consistent with a cumulative $225 billion in deficit reduction.

- CBO believes there are four possible causes for the FY 1997 revenue increase. 1) Potential GDP growth may be higher than assumed. 2) Commerce Department statistics may not be picking up a portion of the incomes generated in the economy. Since CBO economic forecasts are based on these statistics, this would lead to a persistent understatement of income growth. 3) The gap between the gross domestic product and gross domestic income (called the NIPA statistical discrepancy) may be steadily widening, leading to consistently higher incomes relative to GDP. 4) Effective tax rates may have risen slightly. If true, and absent other changes, these four factors would suggest that the revenue adjustment should be persistent and indeed, should increase in the out years.

- While CBO believes these are the main reasons behind the recent revenue surge, the CBO letter also allowed for the possibility that the economy may be experiencing a temporary boom in growth which will soon be followed by a recession. In this latter case, the revenue increase should not be assumed to be persistent.

- By averaging the likelihood of all possible reasons, CBO concluded that annual deficits should be reduced by roughly $45 billion throughout the budget window. <u>This figure includes both a revenue component and its accompanying debt service effect.</u>

REVISED CBO DEFICIT PROJECTIONS
(By Fiscal Year, in billions of dollars)

	1997	1998	1999	2000	2001	2002
Change in deficit	-45	-45	-45	-45	-45	-45
Revenues increase	45	41	39	37	35	33
Debt Service	0	-4	-6	-8	-10	-12

CALENDAR

All dates that follow are tentative -- based on final disposition of House-Senate conference Agreement.

<u>June 13:</u> Senate Spending Reconciliation-- Bill #1: Agriculture, Banking, Commerce, Energy, Finance, Government Affairs, Labor, and Veterans Committees reconciled to Senate Budget Committee.

<u>June 13:</u> House Spending Reconciliation-- Bill #1: Agriculture, Banking, Commerce, Education & Workforce, Government Reform & Oversight, Transportation, Veterans Committees and Ways & Means reconciled to House Budget Committee.

<u>June 14:</u> House Revenue Reconciliation-- Bill #2: Ways & Means reconciled to House Budget Committee.

<u>June 20:</u> Senate Revenue Reconciliation-- Bill #2: Finance reconciled to Senate Budget Committee.

✎**EDITOR'S NOTE: The Bulletin is back!** After a long break, we hope that our readers will understand that the unusual circumstances surrounding the Balanced Budget Agreement and the FY 1998 Budget Resolution prevented us from our normal schedule.

✎WEB SITE: A more complete summary of the Balanced Budget Agreement of 1997 is now available at our web site. The Senate Resolution and the committee print is also available.